# Bank of South Pacific Limited and Subsidiaries

## Condensed consolidated financial statements

**For the half-year ended**

## 30 June 2016

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# Directors' Report

The Directors of Bank of South Pacific Limited ("the Bank" or "BSP") present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as "the Group") for the half-year ended 30 June 2016.

**Directors and officers**

The names of the Directors and officers of Bank of South Pacific Limited during or since the end of the half-year are:

| | |
|---|---|
| Sir K Constantinou, OBE | Mr R Fleming, CSM |
| Mr G Aopi, CBE | Ms F Talao |
| Mr G Robb, OAM | Mr E B Gangloff |
| Dr I Temu | Mr A Mano |
| Sir N Bogan, KBE | Mr T E Fox (Resigned 30 June 2016) |
| Mr A Sam (Appointed 13 July 2016) | |

**Principal activities**

The principal activity of the Bank is the provision of commercial banking and finance services. The Group's activities include the provision of commercial banking and finance services, stock broking and fund management and insurance business throughout Papua New Guinea and the Pacific region. BSP is a company listed on the Port Moresby Stock Exchange (POMSoX), incorporated under the Companies Act of Papua New Guinea, and is an authorised Bank under the Banks and Financial Institutions Act of Papua New Guinea. The Bank and the Group are licensed to operate in the Solomon Islands, Fiji Islands, Cook Islands, Samoa and Tonga. The registered office is at Douglas Street, Port Moresby.

**Review of operations**

The net profit of the Group for the half year ended 30 June 2016, after tax was K301.376 million (half year ended 30 June 2015: K266.952 million).

Dated and signed at Port Moresby this 22nd day of August 2016.

Sir Kostas Constantinou, OBE
Chairman

Robin Fleming, CSM
Chief Executive Officer/ Director

pwc

# Independent Auditor's Review Report

to the Directors of Bank of South Pacific Limited

## *Report on the Half-Year Financial Report*

We have reviewed the accompanying half-year financial statements of Bank of South Pacific Limited (the Company), which comprises the condensed consolidated statement of financial position as at 30 June 2016, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, and condensed consolidated statement of cash flows for the half-year ended on that date and other selected explanatory notes for the Group. The Group comprises the Company and the entities it controlled at 30 June 2016 or from time to time during the half-year.

The condensed interim financial statements do not contain all the disclosures required of the full financial statements under generally accepted accounting practise is Papua New Guinea. Reading these condensed financial statements, therefore, is not a substitute for reading the annual financial statements of the company.

## Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report such that they present fairly the matters to which they relate in accordance with generally accepted accounting practice in Papua New Guinea and for such internal controls as the Directors determine are necessary to enable the preparation of half-year financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, anything has come to our attention that makes us believe that the half-year financial statements do not present fairly the matters to which they relate. As the auditor of Bank of South Pacific Limited, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements

A review of half-year financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the half-year financial statements of the Company, which have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting, do not present fairly the financial position of the Group as at 30 June 2016 and the Group's financial performance for the half-year ended on that date.

**Independent Auditor's Review Report**
to the Directors of Bank of South Pacific Limited

## *Restriction on distribution or use*

This report is made solely to the Directors of the Company, as a body. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in our review report and for no other purpose. We do not accept or assume responsibility to anyone other than the Directors of the Company, as a body, for our review work, for this report or for those conclusions we have formed.

PricewaterhouseCoopers

By: Jonathan Seeto
Partner
Registered under the Accountants Act 1996

Port Moresby
22 August 2016

# STATEMENT BY THE DIRECTORS
FOR THE HALF YEAR ENDED 30 JUNE 2016

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Bank and the Group will be able to pay their debts as and when they become due and payable; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the PNG Companies Act 1997, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Dated and signed in accordance with a resolution of the directors at Port Moresby this 22nd day of August 2016.

Sir Kostas Constantinou, OBE
Chairman

Robin Fleming, CSM
Chief Executive Officer/ Director

pwc

# *Independent Auditor's Review Report*

to the Directors of Bank of South Pacific Limited

## *Report on the condensed consolidated financial statements*

We have reviewed the accompanying condensed consolidated financial statements, being a special purpose financial report, of Bank of South Pacific Limited (the Company), which comprise the condensed consolidated statement of financial position as at 30 June 2016, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in shareholders equity and condensed consolidated statement of cash flows for the half-year ended on that date and other selected explanatory notes for the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2016 or from time to time during the half-year.

The condensed consolidated financial statements do not contain all the disclosures required of the full financial statements under generally accepted accounting practice in Papua New Guinea. Reading these condensed financial statements, therefore, is not a substitute for reading the annual financial statements of the Company.

### *Directors' responsibility for the condensed consolidated financial statements*

The Directors of the Company are responsible for the preparation of these interim financial statements such that they present fairly the matters to which they relate in accordance with IAS 34 'Interim Financial Reporting' and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express a conclusion on the condensed consolidated financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' in order to state whether, on the basis of the procedures described, anything has come to our attention that makes us believe that the condensed consolidated financial statements do not present fairly the matters to which they relate. As the auditor of the Company, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements of Bank of South Pacific Limited do not present fairly the Company and the Group's financial position as at 30 June 2016 and their financial performance and cash flows for the half-year ended on that date in accordance with IAS 34 'Interim Financial Reporting'.

*PricewaterhouseCoopers, Level 6, Harbour City, Konedobu, Port Moresby*
*PO Box 484, Port Moresby, Papua New Guinea*
*T: +675 321 1500, F:+675 321 1428,* www.pwc.com/pg

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# *Independent Auditor's Review Report*

to the Directors of Bank of South Pacific Limited (continued)

## *Restriction on distribution or use*

This report is made solely to the Directors of the Company, as a body. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in our review report and for no other purpose. We do not accept or assume responsibility to anyone other than the Directors of the Company, as a body, for our review work, for this report or for those conclusions we have formed.

PricewaterhouseCoopers.

PricewaterhouseCoopers

Jonathan Seeto
Partner
Registered under the Accountants Act 1996

Port Moresby
24 August 2016

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2016

| *All amounts expressed are in K'000* | Note | Group Half Year Ended 30 June 2016 | Group Half Year Ended 30 June 2015 | Bank Half Year Ended 30 June 2016 | Bank Half Year Ended 30 June 2015 |
|---|---|---|---|---|---|
| Interest income | 2(a) | 605,213 | 526,890 | 584,896 | 525,545 |
| Interest expense | 2(a) | (75,069) | (35,968) | (72,783) | (36,702) |
| Net interest income | | 530,144 | 490,922 | 512,113 | 488,843 |
| Fee and commission income | 2(b) | 173,268 | 149,967 | 165,008 | 147,376 |
| Other income | 2(c) | 122,987 | 100,305 | 112,958 | 100,422 |
| Net banking operating income | | 826,399 | 741,194 | 790,079 | 736,641 |
| Net insurance premium income | | 55,011 | 44,827 | - | - |
| Investment revenue | | 32,682 | 28,274 | - | - |
| Increase in policy liabilities | | (15,930) | (6,476) | - | - |
| Policy maintenance & investment expense | | (36,985) | (31,458) | - | - |
| Share of profits from associates and jointly controlled entities | | 2,218 | - | - | - |
| Claims, surrender and maturities | | (31,851) | (29,450) | - | - |
| Net insurance operating income | | 5,145 | 5,717 | | |
| Total net operating income | | 831,544 | 746,911 | 790,079 | 736,641 |
| Loan impairment expense | 2(d) | (39,560) | (36,109) | (35,845) | (34,238) |
| Other operating expenses | 2(e) | (368,879) | (334,829) | (345,755) | (327,837) |
| **Operating profit before income tax** | | **423,105** | **375,973** | **408,479** | **374,566** |
| Income tax expense | | (121,729) | (109,021) | (120,907) | (110,359) |
| **Profit for the period** | | **301,376** | **266,952** | **287,572** | **264,207** |
| **Other comprehensive income** | | | | | |
| *Items that may be subsequently reclassified to profit or loss* | | | | | |
| Translation of financial information of foreign operations to presentation currency | | 60,761 | 2,423 | 34,999 | 2,194 |
| *Items that will not be reclassified to profit or loss* | | | | | |
| Net movement on asset revaluation | | (474) | 8,330 | 34 | 8,330 |
| Other comprehensive income, net of tax | | 60,287 | 10,753 | 35,033 | 10,524 |
| **Total comprehensive income for the period** | | **361,663** | **277,705** | **322,605** | **274,731** |
| ***Earnings per share (toea per share)*** | | | | | |
| Earnings per share – Basic and diluted (toea per share) | | 64.5 | 57.0 | | |

*See accompanying Notes to the condensed consolidated financial statements*

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

| *All amounts expressed are in K'000* | Note | Group | | Bank | |
|---|---|---|---|---|---|
| | | As at 30 June 2016 | As at 31 December 2015 | As at 30 June 2016 | As at 31 December 2015 |
| **ASSETS** | | | | | |
| Cash and balances with Central Bank | | 1,342,290 | 1,202,466 | 1,117,968 | 1,010,856 |
| Treasury & Central Bank bills | | 2,677,067 | 2,503,109 | 2,668,781 | 2,501,256 |
| Amounts due from other banks | | 1,170,187 | 709,849 | 1,045,501 | 586,969 |
| Statutory deposits with Central Bank | | 1,404,970 | 1,359,606 | 1,383,345 | 1,341,650 |
| Other financial assets | | 2,290,833 | 2,308,926 | 2,002,963 | 2,074,124 |
| Loans, advances and other receivables from customers | 4 | 9,321,138 | 8,621,514 | 8,768,838 | 8,181,227 |
| Asset held for sale | | 34,602 | 35,135 | 34,602 | 35,135 |
| Property, plant and equipment | | 681,743 | 686,325 | 586,882 | 597,373 |
| Asset subject to operating lease | | 48,763 | 52,857 | 48,763 | 52,857 |
| Investment in associates & joint ventures | | 112,401 | 102,747 | 15,653 | 14,878 |
| Investment in subsidiaries | | - | - | 279,477 | 259,869 |
| Intangible assets | | 111,416 | 110,226 | 101,439 | 99,601 |
| Investment properties | | 110,459 | 101,019 | - | - |
| Deferred tax assets | | 151,605 | 147,389 | 161,321 | 159,290 |
| Other assets | | 190,246 | 255,135 | 147,866 | 206,558 |
| **Total assets** | | **19,647,720** | **18,196,303** | **18,363,399** | **17,121,643** |
| **LIABILITIES** | | | | | |
| Amounts due to other banks | | 416,271 | 344,346 | 430,686 | 344,877 |
| Customer deposits | | 15,655,511 | 14,595,374 | 15,186,684 | 14,248,296 |
| Subordinated debt securities | | 75,525 | 75,525 | 75,525 | 75,525 |
| Other liabilities | | 1,158,790 | 969,179 | 479,249 | 353,252 |
| Provision for income tax | | 82,634 | 39,005 | 80,302 | 36,168 |
| Other provisions | | 166,351 | 143,698 | 153,493 | 132,535 |
| **Total liabilities** | | **17,555,082** | **16,167,127** | **16,405,939** | **15,190,653** |
| **SHAREHOLDERS EQUITY** | | | | | |
| Ordinary shares | | 373,274 | 374,621 | 373,274 | 374,621 |
| Retained earnings | | 1,404,698 | 1,399,490 | 1,333,470 | 1,340,000 |
| Other reserves | | 314,666 | 255,065 | 250,716 | 216,369 |
| Total shareholders' equity | | 2,092,638 | 2,029,176 | 1,957,460 | 1,930,990 |
| **Total equity and liabilities** | | **19,647,720** | **18,196,303** | **18,363,399** | **17,121,643** |

*See accompanying Notes to the condensed consolidated financial statements*

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE HALF-YEAR ENDED 30 JUNE 2016

| *All amounts expressed are in K'000* | Ordinary Shares | Other Reserves | Retained earnings | Total |
|---|---|---|---|---|
| **GROUP** | | | | |
| **Balance at 1 January 2016** | **374,621** | **255,065** | **1,399,490** | **2,029,176** |
| Profit for the period | - | - | 301,376 | 301,376 |
| Dividend paid | - | - | (296,854) | (296,854) |
| Share buyback | (1,347) | | - | (1,347) |
| Transfer from Asset Revaluation Reserve | - | (686) | 686 | - |
| Other comprehensive income | - | 60,287 | - | 60,287 |
| **Balance at 30 June 2016** | **373,274** | **314,666** | **1,404,698** | **2,092,638** |
| | | | | |
| **Balance at 1 January 2015** | **379,297** | **201,460** | **1,219,436** | **1,800,193** |
| Profit for the period | - | - | 266,952 | 266,952 |
| Dividend paid | - | - | (263,873) | (263,873) |
| Share buyback | (2,625) | - | - | (2,625) |
| Transfer from Asset Revaluation Reserve | - | (3,037) | 3,037 | - |
| Other comprehensive income | - | 10,753 | - | 10,753 |
| **Balance at 30 June 2015** | **376,672** | **209,176** | **1,225,552** | **1,811,400** |
| | | | | |
| **BANK** | | | | |
| **Balance at 1 January 2016** | **374,621** | **216,369** | **1,340,000** | **1,930,990** |
| Profit for the period | - | - | 287,572 | 287,572 |
| Dividend paid | - | - | (294,788) | (294,788) |
| Share buyback | (1,347) | - | - | (1,347) |
| Transfer from Asset Revaluation Reserve | - | (686) | 686 | - |
| Other comprehensive income | - | 35,033 | - | 35,033 |
| **Balance at 30 June 2016** | **373,274** | **250,716** | **1,333,470** | **1,957,460** |
| | | | | |
| **Balance at 1 January 2015** | **379,297** | **183,546** | **1,183,505** | **1,746,348** |
| Profit for the period | - | - | 264,207 | 264,207 |
| Dividend paid | - | - | (262,021) | (262,021) |
| Share buyback | (2,625) | - | - | (2,625) |
| Transfer from Asset Revaluation Reserve | - | (3,037) | 3,037 | - |
| Other comprehensive income | - | 10,524 | - | 10,524 |
| **Balance at 30 June 2015** | **376,672** | **191,033** | **1,188,728** | **1,756,433** |

*See accompanying Notes to the condensed consolidated financial statements*

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE HALF-YEAR ENDED 30 JUNE 2016

| *All amounts expressed are in K'000* | Note | Group Half Year Ended 30 June 2016 | Group Half Year Ended 30 June 2015 | Bank Half Year Ended 30 June 2016 | Bank Half Year Ended 30 June 2015 |
|---|---|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | | |
| Interest received | | 611,060 | 499,999 | 640,868 | 498,664 |
| Fees and other income | | 302,833 | 284,951 | 161,151 | 219,090 |
| Interest paid | | (58,918) | (32,159) | (56,892) | (36,702) |
| Amounts paid to suppliers and employees | | (295,794) | (275,898) | (161,599) | (213,585) |
| **Operating cash flow before changes in operating assets** | | **559,181** | **476,893** | **583,528** | **467,467** |
| Increase in loans | | (739,071) | (244,535) | (623,456) | (208,836) |
| Increase in other assets | | 52,009 | (110,415) | 14,007 | (112,739) |
| Increase in customer deposits | | 984,612 | 580,339 | 938,388 | 581,425 |
| Increase in statutory deposits | | (45,364) | (29,324) | (41,695) | (29,324) |
| Increase in other liabilities | | 256,693 | 76,011 | 117,928 | 47,829 |
| **Net cash flow from operations before income tax** | | **1,068,060** | **748,969** | **988,700** | **745,822** |
| Income taxes paid | | (82,316) | (73,106) | (78,804) | (70,713) |
| **Net cash flow from operating activities** | | **985,744** | **675,863** | **909,896** | **675,109** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | | |
| Decrease in Government securities | | (155,865) | 161,028 | (115,972) | 235,971 |
| Payments for property, plant & equipment | | (37,339) | (38,060) | (33,096) | (32,987) |
| Proceeds for disposal of property, plant & equipment | | 677 | 9,073 | 677 | 9,073 |
| **Net cash flow (used in)/ from investing activities** | | **(192,527)** | **132,041** | **(148,391)** | **212,057** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | | |
| Share buy back | | (1,347) | (2,625) | (1,347) | (2,625) |
| Dividends paid | | (296,854) | (263,873) | (294,788) | (262,021) |
| **Net cash flow used in financing activities** | | **(298,201)** | **(266,498)** | **(296,135)** | **(264,646)** |
| **Net Increase in cash and cash equivalents** | | **495,016** | **541,406** | **465,370** | **622,520** |
| Effect of exchange rate movements on cash and cash equivalents | | 47,790 | 2,423 | 29,034 | 2,194 |
| Cash and cash equivalent at the beginning of the period | | 1,553,400 | 1,476,230 | 1,238,379 | 1,383,080 |
| **Cash and Cash Equivalents at the end of the period** | 9 | **2,096,206** | **2,020,059** | **1,732,783** | **2,007,794** |

*See accompanying Notes to the condensed consolidated financial statements*

## 1. Statement of significant accounting policies

### Statement of compliance

The half year report is a general purpose financial report prepared in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

### Basis of preparation

The condensed consolidated financial statements are denominated in Papua New Guinea Kina, which is the reporting currency of the Group. All financial information presented in Papua New Guinea Kina has been rounded to the nearest thousand dollars, unless otherwise stated.

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The accounting policies and methods of computations adopted in preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2015 financial report for the financial year ended 31 December 2015.

## 2. Operating profit before income tax

Operating profit before income tax is determined after including:

### *(a) Net interest income*

| *All amounts expressed are in K'000* | Group Half Year Ended 30 June 2016 | Group Half Year Ended 30 June 2015 | Bank Half Year Ended 30 June 2016 | Bank Half Year Ended 30 June 2015 |
|---|---|---|---|---|
| Interest Income | | | | |
| Domestic loans and advances | 443,023 | 375,208 | 421,755 | 373,863 |
| Public securities: Treasury bills/inscribed stock | 160,672 | 145,816 | 160,672 | 145,816 |
| Other loans and advances | 737 | 4,688 | 727 | 4,688 |
| Other | 781 | 1,178 | 1,742 | 1,178 |
| | 605,213 | 526,890 | 584,896 | 525,545 |
| Interest Expense | | | | |
| Current and term deposits | (68,511) | (27,217) | (66,190) | (27,217) |
| Other borrowings | (4,144) | (4,120) | (4,144) | (4,120) |
| Deposits from other banks | (2,414) | (4,631) | (2,449) | (5,365) |
| | (75,069) | (35,968) | (72,783) | (36,702) |
| | 530,144 | 490,922 | 512,113 | 488,843 |

### *(b) Fee and commission income*

| | | | | |
|---|---|---|---|---|
| Product related | 99,554 | 91,741 | 96,911 | 91,709 |
| Trade and international related | 9,182 | 6,982 | 9,049 | 6,982 |
| Electronic banking related | 51,125 | 40,902 | 49,165 | 40,901 |
| Other | 13,407 | 10,342 | 9,883 | 7,784 |
| | 173,268 | 149,967 | 165,008 | 147,376 |

### *(c) Other income*

| | | | | |
|---|---|---|---|---|
| Foreign exchange earnings | 109,014 | 86,100 | 99,951 | 86,100 |
| Operating lease rentals | 5,052 | 5,052 | 5,052 | 5,052 |
| Other | 8,921 | 9,153 | 7,955 | 9,270 |
| | 122,987 | 100,305 | 112,958 | 100,422 |

### *(d) Loan impairment expense*

| | | | | |
|---|---|---|---|---|
| New write off | 37,920 | 28,815 | 37,306 | 28,815 |
| Net new and increased individually assessed and collective provisioning | 28,490 | 34,779 | 26,231 | 32,907 |
| Recoveries during the period | (26,850) | (27,485) | (27,692) | (27,484) |
| | 39,560 | 36,109 | 35,845 | 34,238 |

### *(e) Other operating expenses*

| | Group | | Bank | |
|---|---|---|---|---|
| | Half year ended 30 June | | Half year ended 30 June | |
| *All amounts expressed are in K'000* | 2016 | 2015 | 2016 | 2015 |
| Staff | 164,962 | 139,610 | 155,561 | 135,350 |
| Depreciation | 47,580 | 55,529 | 45,271 | 55,062 |
| Computing | 33,530 | 24,625 | 28,527 | 24,122 |
| Premises and equipment expenses | 39,619 | 43,746 | 37,285 | 43,424 |
| Administration and other expenses | 83,188 | 71,319 | 79,111 | 69,879 |
| | 368,879 | 334,829 | 345,755 | 327,837 |

## 3. Dividends

On 23 May 2016, the directors declared a final dividend of 63 toea per share for the year ended 31 December 2015. The declared final gross dividend amount was K296.854 million (December 2014: K263.873 million). Net dividend paid after dividend withholding tax was K281.449 million (December 2014: K250.559 million).

## 4. Loans, advances and other receivables from customers

| | Group | | Bank | |
|---|---|---|---|---|
| *All amounts expressed are in K'000* | As at 30 June 2016 | As at 31 December 2015 | As at 30 June 2016 | As at 31 December 2015 |
| Gross loans, advances and other receivables from customers net of reserved interest | 9,792,307 | 9,068,386 | 9,220,659 | 8,609,755 |
| Allowances for losses on loans, advances and other receivables from customers | (471,169) | (446,872) | (451,821) | (428,528) |
| Net loans, advances and other receivables from customers | 9,321,138 | 8,621,514 | 8,768,838 | 8,181,227 |
| ***Industry concentration of loan, advances and other receivables from customers*** | | | | |
| Commerce, finance and other business | 5,656,728 | 5,136,578 | 5,355,216 | 5,006,789 |
| Private households | 1,890,424 | 1,669,618 | 1,712,610 | 1,588,369 |
| Government and public authorities* | 194,949 | 126,141 | 185,461 | 124,320 |
| Agriculture | 296,095 | 405,766 | 283,435 | 408,799 |
| Transport and communication | 441,479 | 582,835 | 391,378 | 355,405 |
| Manufacturing | 263,378 | 244,371 | 241,337 | 236,206 |
| Construction | 578,085 | 456,205 | 599,401 | 461,339 |
| | 9,321,138 | 8,621,514 | 8,768,838 | 8,181,227 |

**Total by Government ownership at 30 June 2016 was K2.3b (31 December 2015: K2.1b).*

## 5. Capital adequacy and liquid assets ratio

The Bank and Group are required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a Bank is under, adequately, or well capitalized, and also specifies the leverage capital ratio. In all months, the Bank and the Group complied with the prevailing prudential requirements for total capital and leverage capital. As at 30 June 2016, the Bank and Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for well-capitalised. The minimum requirement as set out under the standard is as follows: capital adequacy ratio for Tier 1 is 8%, total capital adequacy is 12% and the leverage capital ratio is 6%.

The measure of capital used for the purposes of prudential supervision is referred to as base capital. Total base capital varies from the balance of capital shown on the balance sheet and is made up of tier 1 capital (core) and tier 2 capital (supplementary), after deducting the value of investments in other banks and financial institutions. Tier 1 capital is obtained by deducting from equity capital and audited retained earnings (or losses), intangible assets including deferred tax assets. Tier 2 capital cannot exceed the amount of tier 1 capital, and can include subordinate loan capital, specified asset revaluation reserves, un-audited profits (or losses) and a small percentage of general loan loss provisions.

Risk weighted assets are derived from on-balance sheet and off-balance sheet assets. On balance sheet assets are weighted for credit risk by applying weightings (0, 20, 50 and 100 per cent) according to risk classification criteria set by the BPNG. Off-balance sheet exposures are risk weighted in the same way after converting them to on-balance sheet credit equivalents using BPNG specified credit conversion factors.

| | As at 30 June 2016 | | As at 31 Dec 2015 | |
|---|---|---|---|---|
| ***Risk weighted capital ratios*** | **K'000** | **%** | **K'000** | **%** |
| Tier 1 Capital | 1,359,557 | 14.8% | 1,603,825 | 19.0 |
| Tier 1 + Tier 2 Capital | 2,010,032 | 21.9% | 1,952,807 | 23.1 |
| ***Leverage capital ratio*** | | 7.0% | | 8.9% |

## 6. Contingent liabilities and commitments

The primary purpose of credit related commitments are to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank and Group do not generally expect the third party to draw funds under the agreement.

Commitments to extend credit represent the unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not difficult to quantify, is considerably less than the total unused commitments since most commitments to extend credit are subject to customers maintaining approved specific credit standards. While there is credit risk associated with the remainder of commitments, the risk is considered to be modest, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, second, from these drawings subsequently not being repaid as due. The total outstanding contractual amount of commitments to extend does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

***Off-balance-sheet financial instruments***

The following table indicates the contractual amounts of the Bank and Group's off-balance sheet financial instruments that commit it to extend credit to customers.

| | Group | | Bank | |
|---|---|---|---|---|
| *All amounts expressed are in K'000* | As at 30 June 2016 | As at 31 December 2015 | As at 30 June 2016 | As at 31 December 2015 |
| Standby letters of credit | 30,096 | 31,164 | 30,096 | 31,164 |
| Guarantees and indemnities issued | 395,612 | 304,086 | 388,006 | 299,857 |
| Trade letters of credit | 70,532 | 46,139 | 64,860 | 45,255 |
| Commitments to extend credit | 1,160,860 | 1,224,744 | 1,148,531 | 1,223,746 |
| | 1,657,100 | 1,606,133 | 1,631,493 | 1,600,022 |

***Commitments for capital expenditure***

Commitments for capital expenditure not included in the accounts as at 30 June 2016 amounted to K15.9 million (31 December 2015: K29.5 million).

***Contingent liability***

A number of legal proceedings (including potential claims where management cannot reasonably quantify) against the Bank and Group were outstanding as at 30 June 2016. No provision has been made as existing management information and professional advice indicate that it is unlikely that any significant loss will arise. Based on information available at 30 June 2016, the Bank and Group estimates a contingent liability of K6.6 million in respect of these proceedings (31 December 2015: K8.9 million).

***Statutory deposit***

| | Group | | Bank | |
|---|---|---|---|---|
| *All amounts expressed are in K'000* | As at 30 June 2016 | As at 31 December 2015 | As at 30 June 2016 | As at 31 December 2015 |
| Cash reserve requirement - from 10% of all amounts due to customers in PNG | 1,404,970 | 1,359,606 | 1,383,345 | 1,341,650 |

***Operating lease commitments***

| | Group | | Bank | |
|---|---|---|---|---|
| *All amounts expressed are in K'000* | As at 30 June 2016 | As at 31 December 2015 | As at 30 June 2016 | As at 31 December 2015 |
| Not later than 1 year | 34,014 | 22,466 | 33,169 | 22,466 |
| Later than 1 year and not later than 5 years | 42,438 | 36,421 | 40,697 | 36,421 |
| Later than 5 years | 18,133 | 16,797 | 17,512 | 16,797 |
| | 94,585 | 75,684 | 91,378 | 75,684 |

## 7. Derivative financial instruments

In the normal course of trading, the Bank and Group enter into forward exchange contracts. The Bank and Group do not actively enter into or trade in complex forms of derivative financial instruments such as currency and interest rate swaps and options.

Exposures in foreign currencies arise where the Bank and Group transact in foreign currencies. This price risk is minimised by entering into counterbalancing positions for material exposures as they arise. Forward and spot foreign exchange contracts are used.

Forward exchange contracts outstanding, stated at the face value of the respective contracts are:

Forward exchange contracts

| | Group | | Bank | |
|---|---|---|---|---|
| *All amounts expressed are in K'000* | As at 30 June 2016 | As at 31 December 2015 | As at 30 June 2016 | As at 31 December 2015 |
| Buying | 139,008 | 58,121 | 139,008 | 58,121 |
| Selling | (226,748) | (53,778) | (225,244) | (53,778) |
| | (87,740) | 4,343 | (86,236) | 4,343 |

*There is no material difference between the fair value and face value of the contracts.*

## 8. Related parties

Related parties are considered to be enterprises or individuals with whom the Bank and the Group is especially related because either they or the Bank and the Group are in a position to significantly influence the outcome of transactions entered into with the Bank and the Group, by virtue of being able to control, dominate or participate in a fiduciary capacity, in decision-making functions or processes. The Bank and the Group conducted transactions with the following classes of related parties during the period:

- Directors and/or parties in which a director has significant influence.
- Key management personnel and other staff and/or parties in which the individual officer has significant influence.

A number of banking transactions are entered into with these related parties in the normal course of business, and include loans, deposits, property rentals, share transfers and foreign currency transactions. These transactions are carried out on commercial terms and market rates.

***Significant related party balances relating to loans and advances to customers are as follows:***

| | Group | |
|---|---|---|
| *All amounts expressed are in K'000* | As at 30 June 2016 | As at 31 December 2015 |
| ***Loans to :*** | | |
| Parties where the related party interest is primarily in a director capacity | 520,486 | 564,033 |
| Parties where the related party interest is primarily in an executive capacity | 52,537 | 50,274 |
| General staff | 5,705 | 4,678 |
| | **578,728** | **618,985** |

## 9. Notes to condensed consolidated statements of cash flows

For the purpose of the cash flow statements, cash and cash equivalents comprise the following balances with less than 90 days maturity.

| | Group As at 30 June | | Bank As at 30 June | |
|---|---|---|---|---|
| *All amounts expressed are in K'000* | 2016 | 2015 | 2016 | 2015 |
| Cash and balances with Central Bank | 1,342,290 | 1,387,580 | 1,117,968 | 1,350,091 |
| Due from other banks | 1,170,187 | 920,564 | 1,045,501 | 945,788 |
| Due to other banks | (416,271) | (288,085) | (430,686) | (288,085) |
| | 2,096,206 | 2,020,059 | 1,732,783 | 2,007,794 |

## 10. Segment information

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review:

*All amounts expressed are in K'000*

| Half Year Ended 30 June 2016 | PNG Retail Bank | PNG Corporate Bank | PNG Paramount Bank | Non PNG Banks | Non Bank Entities | Adjust Inter Segments | Total |
|---|---|---|---|---|---|---|---|
| Net interest income | 141,829 | 242,685 | 56,233 | 82,435 | 5,650 | 1,312 | 530,144 |
| Other income | 122,391 | 51,121 | 36,506 | 82,667 | 4,023 | (453) | 296,255 |
| Net insurance income | - | - | - | - | 5,145 | - | 5,145 |
| Total operating income | **264,220** | **293,806** | **92,739** | **165,102** | **14,818** | **859** | **831,544** |
| Operating expenses | (173,303) | (77,070) | (23,497) | (80,470) | (11,719) | (2,820) | (368,879) |
| Impairment expenses | (19,162) | (9,043) | 158 | (9,337) | (2,176) | - | (39,560) |
| Profit before income tax | **71,755** | **207,693** | **69,400** | **75,295** | **923** | **(1,961)** | **423,105** |
| Income tax expense | (21,635) | (62,627) | (20,926) | (18,837) | 2,296 | - | (121,729) |
| Net profit after income tax | **50,120** | **145,066** | **48,474** | **56,458** | **3,219** | **(1,961)** | **301,376** |
| **Half year Ended 30 June 2015** | | | | | | | |
| Net interest income | 142,411 | 238,024 | 62,521 | 46,479 | 1,374 | 104 | 490,913 |
| Other income | 123,470 | 45,743 | 32,464 | 45,988 | 2,616 | - | 250,281 |
| Net insurance income | - | - | - | - | 5,717 | - | 5,717 |
| Total operating income | **265,881** | **283,767** | **94,985** | **92,467** | **9,707** | **104** | **746,911** |
| Operating expenses | (169,132) | (76,569) | (30,381) | (50,084) | (7,546) | (1,117) | (334,829) |
| Impairment expenses | (18,266) | (8,741) | (79) | (7,164) | (1,859) | - | (36,109) |
| Profit before income tax | **78,483** | **198,457** | **64,525** | **35,219** | **302** | **(1,013)** | **375,973** |
| Income tax expense | (23,507) | (59,274) | (19,272) | (8,311) | 1,343 | - | (109,021) |
| Net profit after income tax | **54,976** | **139,183** | **45,253** | **26,908** | **1,645** | **(1,013)** | **266,952** |

## 11. Subsequent events

On 1 July 2016, the Group acquired the Westpac Bank Australia Limited subsidiary in Vanuatu for a consideration of K24.7 million and a subsequent capital injection of K13.3 million totalling K38 million. At the date of this report the accounting for the acquisition, in particular the fair values of the assets and liabilities acquired have not yet been finalised.